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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 10/30/08

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Sankei:

Second supplementary budget to be submitted to current Diet session

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Government announces today second economic package features cash benefits worth 2 trillion yen

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(2) Great expectations and concern about linear bullet train

Mainichi:

(1) Shortage of obstetrics and gynecology specialists urgent issue to be resolved

Yomiuri:

(1) Restoring public trust by teaching the teachers

(2) Can Japan, China carry out reliable and speedy mutual assistance based on bilateral criminal treaty?

Nikkei:

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(2) Anti-pirates measures off Somalia urgently needed

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(1) Shinginko Tokyo Bank's illegal loan tip of the iceberg

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3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, October 29

NIKKEI (Page 2) (Full)  
October 30, 2008

07:34

Took a walk around his private residence in Kamiyama-cho.

11:09

Met with Japan Finance Corporation President Yasui and Vice President Hosokawa at the Kantei.

12:16

Met with Finance Minister Nakagawa, followed by Land, Infrastructure and Transport Minister Kaneko.

14:00

Met with Vice Finance Minister for International Financial Affairs

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Shinohara and Foreign Ministry Economic Affairs Bureau Director General Otabe. Then met with the chairman of the Diet Members Caucus for Friendship between Indonesia and Japan.

15:22

Former LDP Tax System Research Commission Chairman Aizawa.

16:22

Met with State Minister for Economic and Financial Policy Yosano.

17:15

Met with Special Advisor Yamaguchi, followed by Secretary General Hosoda and Diet Affairs Committee Chairman Omori. Hosoda remained.

18:56

Met with Chief Cabinet Secretary Kawamura.

19:33

Met with Prince Charles and his wife, the Duchess of Cornwall, at Imperial Hotel together with his wife Chikako.

20:22

Dined with his family at Asada, a traditional Japanese restaurant in Akasaka.

22:40

Arrived at the private residence.

4) Tax revenue for this fiscal year estimated to fall over 5 trillion yen: Issuance of government bonds likely to top 30 trillion yen

ASAHI (Top Play) (Full)  
October 30, 2008

The likelihood is now tax revenue for the government's special account for fiscal 2008 will drop more than 5 trillion yen from the originally estimated 53.5 trillion yen. The reason is that corporate tax revenue will significantly drop with companies' business performance deteriorating in the wake of the financial crisis that started in the U.S. and the strong yen. The government finds it imperative to issue additional deficit-covering government bonds in order to make up for the fall in tax revenue. The amount of the issuance of government bonds will likely exceed 30 trillion yen for the first time in three years.

The government has a goal of moving the primary balance into the black by fiscal 2011 to be achieved by holding down the issuance of new government bonds issued by that year at a level below the payment of interest on bonds issued in the past. If it issues additional deficit-covering government bonds in fiscal 2008, it would become very difficult to achieve the goal unless tax revenue jumps.

The government had projected tax revenue for the general account in fiscal 2008, based on economic outlook and corporate performances as

of December last year. It had estimated corporate tax revenue at 16.7 trillion yen, approximately 30 PERCENT of the total tax revenue. However, corporate tax revenue has markedly dropped this year due to the sharp rise in raw material prices and the slowdown in the U.S. economy. Corporate performance has further declined, compounded by the financial crisis and the strong yen. Valuation

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losses on companies' shareholdings due to a decline in stock prices are expanding. The cumulative total of corporate tax revenue for a period from April through August stood at 58 PERCENT of the level of the same term in the previous year. The situation is so harsh that a significant drop in tax revenues would be inevitable even on a full-year basis.

Sales tax revenue, which accounts for approximately 20 PERCENT of tax revenue, is likely to fall with consumer spending remaining stagnant due to price rises. Plummeting stock prices are taking a toll on individual investors, causing concern over a negative effect on income tax revenue.

As such, the Finance Ministry reviewed the estimate for fiscal 2008 tax revenue. It now projects a shortfall of over 5 trillion yen. There is fear that if the economy continues to slow, tax revenue would further drop. It plans to submit a supplementary budget bill that incorporates revised-down tax revenue to the current extraordinary Diet session or the regular session to be convened next year. The plan is to make up for tax and other revenue shortfalls worth 25.3 trillion yen with the issuance of government bonds. In addition, it has already been set that additional construction bonds worth 400 billion yen would be issued to finance the first supplementary budget, which was approved in the extraordinary Diet session. One means of covering a tax revenue shortfall is to use reserves in the special account. However, since no major sum can be expected from the reserves, the government would find it unavoidable to issue additional government bonds.

5) Additional economic pump-priming measures to feature stock purchase by Banks' Shareholdings Purchase Corporation: Unemployment insurance rate to be cut to 0.8 PERCENT

MAINICHI (Top Play) (Excerpts)  
October 30, 2008

The government and the ruling parties on October 29 finalized a package of additional economic pump-priming measures to deal with the deteriorating economy and the financial crisis. According to the plan, a total of 2 trillion yen will be paid out to individual households. The package will also incorporate a policy of considering large-scale stock purchases by public institutions as a fresh approach to undergird stock prices. The unemployment insurance rate will also be reduced 0.4 points from the current 1.2 PERCENT of employees' annual income, shouldered by employers and employees on a 50-50 basis, to 0.8 PERCENT in fiscal 2009. Expressway tolls will also be cut. The government's fiscal disbursements will total about 5 trillion yen, significantly exceeding the size of the economic stimulus package (approximately 2 trillion yen), which the government adopted in late August. The project size will likely reach 20 billion yen. The package will mention that no deficit-covering government bonds will be issued to finance the package.

Gist of government's additional economic pump-priming measures  
? A total of 2 trillion yen to be paid out to individual households without income restriction  
? Set up various funds as nursing-care, employment and low-birthrate measures.  
? Reduce the burden of both employers and employees by cutting employment insurance rate  
? Help irregular employees become regular employees

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? Largest-ever housing loan tax cut

#### Financial and economic measures

- ? Consider large-scale purchase of shares by public institutions, such as the Banks' Shareholdings Purchase Corporation
- ? Revive the Financial Functions Early Strengthening Law, which enables the injection of public money into financial institutions for a preventive purpose
- ? Far-reaching assistance to small- and medium-size businesses procuring funds to manage operating funds, by extensively expanding the credit guarantee system
- ? Lowering the reduced tax rates applied to small- and medium-size businesses on a time-limited basis
- ? Tax cut for the promotion of energy-saving investment.

#### Revitalizing local areas

- ? Allocating 1 trillion yen to local governments from special road-construction funds
- ? Substantial cut in expressway tolls
- ? Allocating special subsidies to local governments as a measure to promote regional economies

#### Funding resources, etc.

- ? Use reserves in the special account. Deficit-covering government bonds will not be issued.
- ? Compile a mid-term tax system reform program, including the sales tax, with the aim of securing stable revenue sources for social security.

6) Second supplementary budget may be submitted to current Diet session

YOMIURI (Page 1) (Full)  
October 30, 2008

A second economic stimulus package will be adopted this evening in a meeting of the government and ruling parties. Following this, Prime Minister Taro Aso will hold a meeting with New Komeito leader Akihiro Ota, who has called for an early dissolution of the House of Representatives, to seek again the New Komeito's understanding for his plan to push back a general election for the Lower House. After that, Aso will hold a press conference.

The outlook is that the government will submit a second supplementary budget for fiscal 2008 in mid-November or later at the earliest to the current Diet session. In an effort to enact the second budget, the government and ruling coalition are looking into the possibility of extending the ongoing session, which will run until Nov. 30.

7) Prime Minister Aso considering a second supplementary budget with aim of containing DPJ

YOMIURI (Page 2) (Excerpts)  
October 30, 2008

Prime Minister Taro Aso has begun looking into compiling a second supplementary budget for fiscal 2008. This is because there is a strong demand for additional economic measures from the public and because Aso has predicted that the main opposition Democratic Party (DPJ) will not be able to oppose emergency economic and financial measures. He appears to be trying to contain the DPJ's hard-line

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approach (demanding immediate Diet dissolution and a snap election) by putting forward the second extra budget to the current Diet session.

Referring to fixed cash benefit payments worth 2 trillion yen, the key feature of the proposed second economic stimulus package, Aso told reporters last night: "There is a big difference in implementing the measures between before the end of the year and next year." He thus hinted at the possibility of submitting the second extra budget, including the cash benefit payment scheme, to the current Diet session.

In a House of Councillors Budget Committee session on Oct. 15, Aso at the time expressed his intention to forgo the submission of a

second supplementary budget to the ongoing session. He seemed to have judged that there would not then be enough time to pass a second budget during the current session because he had planned to dissolve the House of Representatives in October. The outlook is that if the government starts the work of compiling a second extra budget soon, the budget will be submitted to the Diet in mid to late November. There are only 2 weeks left until Nov. 30, when the session ends, for the Diet to deliberate on the new budget. If the DPJ cooperates on the passage of the budget as it did when the first supplementary budget was enacted, passage within two weeks would be possible. However, many lawmakers contend that a lengthy extension of the Diet would be needed in order to adopt the budget for certain.

As a result, some government officials and ruling coalition members are cautious about the submission of a second extra budget, with one saying: "A lengthy extension of the current session would hinder the compilation in December of the national budget for fiscal 2009."

A person close to Aso pointed out: "There are various options such as submitting it by extending the current session or submitting to the next regular session."

Aso is trying to make the DPJ be actively involved in the economic and financial policy making of his government. He appears to be asking the DPJ for cooperation in case he submits a second extra budget. He seems to have assumed that it would be difficult for the DPJ, which is opposed to delaying Lower House dissolution, to now take a hard-line stance toward his Diet management for fear of public criticism.

8) Aso secretly met with New Komeito leaders at hotel, contrary to official announcement that he had dined with secretary

MAINICHI (Page 2) (Abridged slightly)  
October 30, 2008

Prime Minister Taro Aso has been visiting hotels night after night. In many cases, those occasions have been used to hold secret meetings with government and ruling party members.

The Prime Minister's Office had announced that the prime minister visited a hotel on the night of Oct. 28 to dine with his secretary. But it became clear later that he had a meeting with New Komeito Representative Akihiro Ota and others. Announcements different from the facts have resulted in a sense of distrust among the press corps.

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The prime minister's nighttime activities are conveyed to the press corps via the public relations secretary. According to the announcement, the prime minister dined with his secretary at the ANA Intercontinental Hotel, Akasaka, Tokyo, on the night of Oct. 28.

The prime minister entered the hotel with his secretary at 8:04 p.m. Upon obtaining information that the prime minister would have talks with New Komeito leaders, the press corps searched all floors. Usually, police officers stand on guard at the elevator hall of the floor the prime minister is staying. They could not find even such police officers.

The prime minister came out of the hotel about four hours later with his secretary. Ahead of that, a New Komeito source admitted a meeting with the prime minister.

It has also become clear that the prime minister met with Finance Minister Shoichi Nakagawa and others on the night of Oct. 16 and with New Komeito Leader Ota and others on the 26th. About those two nights, the prime minister's secretary informed the press corps that the prime minister had dined with his secretaries.

9) Even though New Komeito agrees to delay in Diet dissolution, rift remains with Prime Minister Aso

YOMIURI (Page 4) (Excerpts)

October 30, 2008

Prime Minister Aso has made efforts to persuade the New Komeito to go along with the delay in dissolution of the Lower House. Although party executives are still insisting on an early dissolution, taking a hard look at the prime minister's decision, a mood has spread across the rest of the party accepting the delay.

Representative Ota, Secretary General Kitagawa and other Komeito executives had been assuming that at some point in the early part of Nov., Prime Minister Aso would announce that the election would be announced on Nov. 18 and held on Nov. 30. They were moving ahead with election preparations. The prime minister's tilt toward delaying the dissolution, citing the financial crisis, was unexpected.

In the meeting on Oct. 26 of Aso, Ota, and Kitagawa, Ota reminded the prime minister that he had said he would hold an election on Nov. 30, and he urged that it be carried out as planned. But the prime minister repeatedly stated his thinking about giving priority to the economic stimulus package. At a second meeting of Aso, Ota, and Kitagawa in a hotel on the evening of the 28th, Ota and the others again pointed out the necessity of dissolving the Diet early, but the gulf between them and Aso remained wide.

10) DPJ would win majority single-handedly, according to latest LDP internal polling

NIKKEI (Page 2) (Full)  
October 30, 2008

The Democratic Party of Japan (DPJ) would win a majority single-handedly, while the ruling camp would lose about 130 of the seats it now holds and wind up with just over 200 in the next general election, according to the Liberal Democratic Party's (LDP) latest internal survey. The survey results revealed yesterday are

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worse than those in its previous surveys, showing that the ruling coalition's crushing defeat will be unavoidable. These results have been conveyed to Prime Minister Taro Aso, apparently discouraging him from calling a Lower House at an early date.

The LDP conducted four surveys by direct interview of 1,000 voters in each of 300 constituencies, asking which party they will vote for in the election. The first survey was conducted in late September, just after the Aso administration was launched, followed by a second and third carried by mid-October. This time, Secretary General Hiroyuki Hosoda picked about 120 priority constituencies. The results of the survey conducted on Oct. 24-26 were reported to only a few senior members, including the prime minister.

The latest survey showed that candidates of the LDP and the New Komeito were in the lead in fewer than 120 of the 300 constituencies, while the constituencies in which the DPJ candidates led totaled slightly less than 170. The number of seats expected in both single-seat constituencies and the proportional representation segment is about 180 for the LDP, around 25 for the New Komeito, and over 240 for the DPJ.

In the first survey in late September, the expected number of seats for the ruling coalition was over 230. The prime minister has delayed a Lower House election, taking the survey results and the fallout from the global financial crisis into consideration, but the survey results showed that the situation surrounding the ruling camp became worse over the past month.

11) Former Secretary General Nakagawa: Lower House dissolution is unlikely before Tokyo assembly election

NIKKEI (Page 2) (Full)  
October 30, 2008

Delivering a speech in Tokyo yesterday, Liberal Democratic Party's former Secretary General Hidenao Nakagawa indicated his view that the timing for the next House of Representatives election would be

closer to the time when the incumbent Lower House members' terms expire next September. Nakagawa said:

"We must have the bills related to next fiscal year's budget pass the Diet. The opposition camp is expected to demand thorough deliberations in the Diet, so we might have to resort to the 60-day rule. When considering this possibility, we might find it difficult to dissolve the Lower House before the Tokyo assembly election next summer."

12) JCP approaching corporate managers to form new job rules

ASAHI (Page 4) (Full)  
October 30, 2008

The Japanese Communist Party (JCP) has put forth the rectification of differences in employment conditions as one of its main campaign issues for the next House of Representatives election. The party has been approaching corporate managers since they had responded favorably to its call for new employment rules in order to enhance the competitiveness of Japanese industry. The JCP is aiming at spreading sympathy from low-wage earners to employers.

"The Japanese Communist Party aims for a harmonious relationship

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with large companies under a new democratic economic system," said Chairman Shii in a meeting sponsored by the economic information magazine BOSS in late September. Speaking before nearly 100 corporate managers, Shii emphasized the need for rule-based capitalism and sought their understanding for the JCP's policy stance.

Detailing the plight facing dispatched workers, Shii said: "If companies continue to take the 'throwaway' formula, there will be no future for Japanese society. ... Capitalism will develop for the first time if rules are set to contain desires to excessively pursue profits." Later, Shii commented: "The participants were earnestly listening to me throughout my speech, nodding their heads."

Shii reiterated the need for regulations on companies to be tightened, focusing on the so-called working poor, in meetings in February and in October of the House of Representatives Budget Committee, evoking favorable responses from young people. A member of the public relations office said: "The site on questions and answers in the committee meetings has received more than 100,000 hits."

The next challenge for Shii is to spread such sympathy among corporate managers. Shii said: "I hear many considerate entrepreneurs saying that the current way of using and then discarding young workers must not be left unattended." A senior party member said: "Companies have lost a sense of direction with the end of new liberalism." The JCP intends to urge companies to change within themselves.

13) Deputy Chief Cabinet Secretary Uruma calls for additional sanctions on North Korea

SANKEI (Page 4) (Full)  
October 30, 2008

Deputy Chief Cabinet Secretary Iwao Uruma in an abduction issue taskforce meeting yesterday revealed a view that the government should consider slapping additional sanctions on North Korea as one approach to resolve the issue of Japanese nationals abducted by the North. He said: "The question is whether or not we can put pressure on North Korea to drive it into a tight corner. We have to come up with an innovative idea."

Uruma also underlined the importance of collecting information on the situation in North Korea, saying: "We won't be able to have a dialogue that can prompt the North to take action unless we develop a channel to a special body directly connected with (the Korean Workers Party) and the military in order to get the Japanese government's message across."

14) Japan-U.S. relations repaired for time being through meeting of two countries' delegates to six-party talks

ASAHI (Page 10) (Full)  
October 30, 2008

Toru Tamagawa, Kei Ukai, Washington

Dissolving hard feelings between Japan and the United States was one of the major goals for the meeting of the two countries' chief delegates to the six party talks, held for the first time since the

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United States removed North Korea from its list of terrorism-sponsoring countries. Foreign Affairs Asian and Oceanian Affairs Bureau Director-General Akitaka Saiki and U.S. Assistance Secretary of State Christopher Hill managed to restore the two countries' cooperative relationship for the time being through an effort to look for countries to assume Japan's share of energy aid to North Korea. But the two countries remain far apart on the verification process for North Korean nuclear programs.

Receiving Saiki at the entrance to the State Department, Hill shook hands with him before the press corps. The two officials held talks for about an hour, followed by a dinner. Witnessing the unusually cordial reception, a Japanese negotiations source said, "I sensed acutely the United States was giving him consideration." State Department spokesman Sean McCormack, too, showed consideration to Japanese public opinion, saying in a press briefing ahead of the talks: "At the top of the agenda is to re-announce our support for Japan regarding the abduction issue."

In the meeting, Hill briefed Saiki on the ongoing talks with Australia and other countries to let them take over Japan's share in energy aid to the North equivalent to 200,000 tons of heavy fuel.

Although the planned end-of-October completion of the energy aid in return for the disablement of North Korean nuclear facilities is bound to be delayed Hill said, "The disablement has outpaced the aid." A failure to implement Japan's share might end up giving the North an excuse to suspend the disablement.

With discontent toward Japan simmering among the other members of the six party talks, America's coordination effort was helpful for Japan. Chief Cabinet Secretary Takeo Kawamura in a press briefing yesterday indicated that Japan would welcome other countries taking over Japan's share, saying: "On the abduction issue as well, Australia will ask for progress."

But the future warrants no optimism. In the next six-party talks, the focus would be whether or not what was agreed upon between the United States and North Korea can be put down in writing. Japan remains anxious, with the negotiations source saying, "The United States has delisted the North without any assurances."

The U.S. government is set to finalize the specifics on the verification agreement at the working-level talks to be held in New York next week. But with a change of government slated to occur in January, the focus is already shifting to handing the matter to the next administration without jeopardizing the North Korean situation. To what extent Japan's assertion can be accepted remains unclear.

15) Amended antiterror law will not be enacted until next month or later

YOMIURI (Page 4) (Full)  
October 30, 2008

The House of Councillors Foreign Affairs and Defense Committee decided in a meeting of its directors yesterday to continue deliberations on a bill amending the new Antiterrorism Special Measures Law extending the Maritime Self-Defense Force's refueling activities in the Indian Ocean. Committee directors from the opposition parties claimed that the legislation has yet to be fully discussed, so the ruling parties gave up on taking a vote on the

bill today. Accordingly, the new antiterror legislation's enactment will slip into November.

The opposition parties also demanded the committee summon witnesses to testify on the situation in Afghanistan. The ruling Liberal Democratic Party and the leading opposition Democratic Party of Japan (Minshuto) coordinated between their senior committee directors and then agreed to hold a hearing of witnesses on Nov. 5. The LDP and the DPJ will continue their consultations on when to take a vote on the legislation. However, the vote is expected to be on Nov. 6 or later.

16) Defense Ministry reform: New bureau eyed for SDF manpower, hardware procurement planning

SANKEI (Page 3) (Abridged)  
October 30, 2008

The Defense Ministry has now drawn up a basic plan for its organizational reform. According to the draft plan unveiled yesterday, the Defense Ministry will create a new bureau for defense buildup planning, which is currently done by an existing bureau in the Defense Ministry and also by the Ground, Maritime, and Air Self-Defense Forces' respective staff offices. Based on this plan, the Defense Ministry will study restructuring its organization. The newly planned bureau will be tasked with working out blueprints for the SDF's manning level and mainstay equipment. SDF operational planning will be totally excluded from the scope of the Defense Ministry's internal bureau functions and will be entirely undertaken by the SDF Joint Staff Office.

The Defense Ministry is expected to hold a meeting of its in-house restructuring taskforce today to make a decision on the reform plan. Meanwhile, the prime minister's office will enhance its functions and formulate Japan's security strategies. Given this, the basic plan also says the Defense Policy Bureau, one of the Defense Ministry's internal bureaus, will work out medium- and long-term defense strategies.

The newly planned bureau, which will integrate the defense buildup planning functions of the Defense Ministry's internal bureaus and the GSDF, MSDF, and ASDF staff offices, will be vested with huge-scale budgetary authorization, as it will be endowed with such functions as: 1) compiling and executing each new fiscal year's budget; and 2) working out blueprints for SDF manpower and equipment, research and development, manning levels for the three SDF branches. The three SDF staff offices' remaining functions will be limited to those closely related to the SDF like clothing and food purchases.

17) Editorial: Japan must hurry up on Somalia offing antipiracy counteractions

NIKKEI (Page 2) (Full)  
October 30, 2008

The Red Sea is strategically important for the sea lanes connecting Asia and Europe, and ocean liners enter there through the waters off Somalia. This offing-particularly the Gulf of Aden-is where pirates are rampant, hijacking ships and taking hostages. The United Nations and the North Atlantic Treaty Organization (NATO) have now set about taking counteractions. Japan also should consider proactive

contributions.

The International Maritime Bureau (IMB), which works for sea security and environmental protection, says there were 63 acts of piracy in the waters off Somalia between January and September this year, several times more than in the preceding year. Those incidents include 26 hijackings with a total of 537 hostages. At present, 12 ships and 250 persons are still under the control of pirates. This

year, two Japanese ships were also attacked there.

In September, a Ukrainian freighter loaded with 33 tanks was hijacked. The ship and hostages have yet to be released.

Those pirates are based in Somalia, and they reportedly number 1,000 or 1,200. The pirates there have large weapons, and their hijacking activities are organized. They have been making big money, including ransoms.

Somalia has been in a state of anarchy since 1991 due to a civil war. Its authorities therefore cannot be expected to crack down on the pirates.

The Gulf of Aden leads to the Suez Canal and is a sea corridor for an annual total of more than 20,000 ships. According to the Japanese Shipowners' Association (JSA), about 10 PERCENT or a little over 2,000 ships among Japanese shipping companies' ships pass through the Gulf of Aden.

Many countries and international organizations are concerned about the problem in this sea area. In early October, the U.N. Security Council passed a resolution calling on all interested countries to send naval ships and military aircrafts there.

On Oct. 27, NATO vessels were sent to the offing of Somalia for the first time against pirates. They are said to escort ships carrying international relief goods.

Japan also cannot be indifferent to this problem. JSA Chairman Hiroyuki Maekawa has asked Land and Transport Minister Kazuyoshi Kaneko to take countermeasures immediately, and Prime Minister Taro Aso has ordered government officials to look into the possibility of sending the Maritime Self-Defense Force. The security of sea lanes is indispensable for Japan's economic security, so the government should positively consider taking countermeasures.

Several years ago, pirates in the Straits of Malacca became a problem. Nowadays, in this sea area, coastal countries' cooperation is well under way, with the number of acts of piracy having decreased sharply. International cooperation is needed for escorting, warning, and information sharing in the offing of Somalia as well.

SCHIEFFER